Health Services
LOS ANGELES COUNTY

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*To improve health through leadership, service and education.*

November 30, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John F. Schunhoff, Ph.D.
Interim Director of Health Services

SUBJECT: **UPDATE ON CALIFORNIA 1115 WAIVER AND IMPLEMENTATION IN LOS ANGELES COUNTY (Board Agenda Item S-1, November 30, 2010)**

On November 2, 2010, the Centers for Medicare and Medicaid Services [CMS] approved the California section 1115 Medicaid Demonstration, entitled "California's Bridge to Reform," for a five-year period starting November 1, 2010. Over the past year, as this Waiver was being developed and negotiated, we have provided your Board and your offices with a number of briefings on its status. This is 1) to give you a summary of the key components of the Waiver for Los Angeles County, 2) to inform you of ongoing negotiations concerning the funding, and 3) to advise you of efforts, some already underway, which will be needed to implement the Waiver.

The Waiver approved by CMS on November 2, 2010, is a framework for the transition to federal Health Reform implementation in 2014. Although it provides the framework, much of the detail of implementation and financing remains to be negotiated and approved. The Waiver will provide health care coverage expansion, continued funding of public hospitals' uncompensated care, new funding for delivery system improvements at public hospitals, Medi-Cal managed care for Seniors and Persons with Disabilities (SPDs), and federalization of various State-only funded programs. Each of these components is discussed in Attachment 1, with implications for the County and implementation steps.

The new Waiver provides stable funding sources for the County, however it also contains funding mechanisms that are performance based. If budget neutrality savings are not achieved by the State, or if the County does not achieve its milestones, significant penalties can be imposed. It is too early to determine the net increase in funding from the new Waiver. Discussions concerning distribution among public hospitals in the State are just beginning and discussions in the DSH Task Force concerning the waiver funding and the ongoing hospital fee are resuming.

We will return to your Board with updates and any recommendations for Board action, as appropriate, in accordance with the Waiver motion approved by the Board on November 16, 2010.

WTF:JFS:sr

Attachment

c: County Counsel
Executive Office, Board of Supervisors
Director of Mental Health
Director of Public Health
Director of Public Social Services

**ATTACHMENT 1**

KEY COMPONMENTS OF THE WAIVER [2010 – 2015]

**Low-Income Health Programs (LIHP)**

There are two components of the LIHP. The first is the Medicaid Coverage Expansion (MCE) which provides Medi-Cal eligibility for childless adults with incomes below 133% of the Federal Poverty Level (FPL). These individuals will become eligible for full Medi-Cal in 2014. Because participating counties are providing the non-federal share for the MCE program, CMS has agreed to allow the provider network to be limited and lessened some Medi-Cal and managed care requirements. For example, enrollment caps and less restrictive requirements on timeliness and geographic access will be allowed.

The second component of the LIHP is the Health Care Coverage Initiative (HCCI) which will cover persons aged 19-64 with incomes of 134-200% FPL. Federal funds for this program are capped at $180 million per year. Counties can elect not to run an HCCI program.

**Implications for L.A. County**

This component will allow expansion of the current Coverage Initiative [CI], Healthy Way L.A., in the County. Currently, revenue from the Safety Net Care Pool [SNCP] to the County for the CI is capped at $54 million. The advantage of moving this program outside of the SNCP into an early Medicaid Expansion program is that it is funded as an entitlement and thus is uncapped. However, since the State is not providing any State general funds to this program, it is limited by the amount the County spends on indigent care. It will be advantageous for the County to enroll up to the point that it begins to lose Disproportionate Share Hospital (DSH) funds. Acceptance of this program also ties the County to a partial maintenance of effort for indigent care funding through 2013.

The current CI in LA County is limited to those low-income childless adults with certain chronic conditions. The expansion will allow enrollment of all those adults who meet citizenship or legal residence requirements. Another important feature of the expansion is that it includes as part of its benefit package certain mental health benefits and may include certain substance abuse services. This has the potential to provide additional revenue to DMH and DPH for services they provide to this population.

Additional features of the new MCE program, which will increase our costs, are that we must pay private hospitals for emergency care provided to enrollees [at 30% of specified out-of-plan rates] and that we must pay Federally Qualified Health Centers [FQHCs] in the network at their federal rate.

We must also meet access requirements for those we enroll, for timely access to primary care, specialty care and urgent care. This will require significant progress in restructuring our ambulatory care and will require investment in infrastructure to manage and coordinate the care of this population.

Unknown at this time is also the effort which DPSS will need to make in enrolling the MCE population and the timing of this effort.

### Implementation in L.A. County

The Waiver requires the County to provide the State for CMS approval, information concerning the anticipated enrollment in the MCE program and the network we will use. The core of the L.A. County network already exists as the County hospitals and ambulatory care facilities, and the PPPs. In specific areas of the County which are far from a County hospital, we must attempt to negotiate contracts with other hospitals for treatment of this MCE population, but if we are unable to reach agreement, we may use the County hospitals for service to those areas with arrangements for transportation.

Implementation in the County will require the following:

Renegotiation of the PPP contracts
Negotiation of contracts with selected hospitals
Changes in ambulatory care to meet access requirements
Calculation of the target number of persons to be enrolled
Preparation of the documentation for State and CMS approval

## Delivery System Reform Incentive Pool [DSRIP]

The Waiver provides new State-wide funding for public hospitals of $600 million in the first year, $650 million in the second year and $700 million in the last three years of the Waiver. These funds will be contingent on performance milestones and counties will be penalized if they fail to reach milestones outlined in their CMS-approved plans. County milestone plans must be consistent with the CMS aims of improving patient care and population health, and reducing per capita costs. The plans must be submitted to the State by January 1, 2011. The State will have until February 1, 2011 to submit the plans to CMS and CMS will have until March 1, 2011 to review and approve the plans.

### Implications for L.A. County

The DSRIP has the potential to provide significant resources for DHS to restructure its ambulatory care, to provide medical homes, to coordinate care and to integrate care with its PPP partners. If successfully implemented, this can help transform the system to be prepared for increased competition in Medi-Cal in 2014. However, significant investments will be required to make these changes and some existing funding must be redirected. Thus, the funding cannot be viewed as 100% deficit reduction.

### Implementation in L.A. County

DHS is currently developing its milestones to align with CMS goals and also to support the restructuring necessary to prepare the Department for full health care reform in 2014. This will be done in conjunction with CAPH and the other public hospitals, because of common goals among the CAPH member hospitals and systems. This work must be completed by the end of December.

## Safety Net Care Pool (SNCP)

The SNCP includes funding for the incentive pool, uncompensated care, and the HCCI. The State will also be able to claim federal match for State-only funded programs against the SNCP.

The SNCP will also provide federal revenue to offset costs of treatment of indigent patients not enrolled in the MCE and not reimbursed by DSH payments.

The services currently funded from the South Los Angeles Preservation Fund must be funded from a combination of the MCE, the SNCP, and the DSRIP.

**Transfer of Medi-Cal Seniors and Persons with Disabilities (SPDs) to Managed Care**

The Waiver allows the State to begin mandatory enrollment of SPDs into managed care, beginning in June 2011. The State has included the savings they expect from better management and coordination of care for SPDs in the budget neutrality calculation. The Waiver requires penalties to the State if these savings are not fully realized, which could affect the overall funds available in the SNCP.

**Implications for L.A. County**

An estimated 120,000 SPDs, already enrolled in Medi-Cal, will be transitioned to managed care in L.A. County over a year, beginning June 2011. An estimated 30,000 of the individuals receive at least one episode of care in DHS each year. This approximately 15% of the overall number of Medi-Cal enrollees who receive care at DHS account for a much larger percentage of the Medi-Cal costs and revenues and thus it is important for DHS to retain them in our system.

Further, since the State is not putting any additional State general funds into this implementation, the County must implement an IGT equivalent to the costs it has been incurring for the inpatient care for these SPDs, to fund that portion of the overall managed care.

**Implementation in L.A. County**

Implementation of managed care for SPDs in L.A. County involves the following:

Negotiation of agreements with the State and LA Care concerning the assignment of patients to DHS facilities and to PPPs aligned with DHS facilities, the IGT mechanism, and a risk-sharing arrangement among the three entities

Continued ambulatory care transformation work to establish medical homes and coordinated care for this population

**Federalizing Hospital Costs for State Prisoners and County Jail Inmates**

The State continues its discussions with CMS to clarify process steps regarding the draw down of federal funds for state prisoners, who are otherwise eligible for Medi-Cal or MCE, and who receive inpatient services at local community hospitals.